

# **NYANDENI LOCAL MUNICIPALITY**

**2018/19**



## **FIXED ASSETS MANAGEMENT POLICY**

## **INTRODUCTION:**

This policy is intended to define and provide a frame work for the Asset Management of the Nyandeni Municipality within the guiding principles of National Treasury Guidelines, Generally Recognised Accounting Practices (GRAP), Accounting Standards and to promote good financial management practices.

This document is provided to assist management and employees of Nyandeni Local Municipality with implementing and maintaining consistent, effective and efficient asset management principles.

Failure to comply with the prescribed policies will result in the institution of disciplinary procedures in terms of the stipulated human resources policies and procedures of Nyandeni Local Municipality. The policy is effective 1 January 2012.

## **AIM OF THIS DOCUMENT**

This document is provided to assist management and employees of NYANDENI Municipality to implement and maintain consistent, effective and efficient fixed asset management principles.

## **Objectives**

- Safeguarding the fixed assets of the NYANDENI Local Municipality to ensure effective use of existing resources
- Emphasizing a culture of accountability over fixed assets owned by the NYANDENI Local Municipality.
- Ensuring that effective controls are communicated to management and staff through clear and comprehensive written documentation.
- Providing a formal set of procedures to ensure that the NYANDENI Municipality's fixed asset policies are achieved and are in compliance with the Municipal Finance Management Act (MFMA) and National Treasury, IMFO and Accounting Standards Board directions, instructions, principals and guidelines.

This manual supercedes / replaces all previously issued Asset Management Policies and / or Procedures and / or instructions and should be read together with the provisions of Section 63 of the MFMA.

## **CHANGEST OF FIXED ASSET MANAGEMENT POLICY AND/OR**

## PROCEDURE MANUALS

All changes made to either the Asset Management Policies or Procedures must be processed timously and communicated via the proper channels of communication to all asset holders.

The following steps will apply for the control and management of changes to the Asset Management Policy or Procedure Manuals:

- The Chief Financial Officer is appointed as custodian of the Fixed Asset Register and Fixed Asset Management Policy and Procedure manuals. The custodian is ultimately responsible for the control of the Fixed Asset Management Policies and Procedures.
- All recommended changes or requests for changes are recorded in writing that will detail the suggested changes together with reasons for such change.
- The change request is authorised by the relevant Head of Department. The authorised change request form is forwarded to the custodian.
- The custodian circulates the change request between Heads of Departments for comments for a defined period. All comments are forwarded back to the custodian.
- The Chief Financial Officer submits the proposal to the Municipal Manager for Council's approval in the case of changes to the Asset Management Policies or final approval in the case of changes to the Asset Management Procedures.
- Changes in policies will be effective the date of Council's Approval (Date referred to in the resolution)
- The custodian is ultimately responsible for applying the changes and finalising the Asset Management Policy and Procedure manuals. The new document is made available in its entirety within one week after final approval has been received with clear Indications of the changes.
- It remains the responsibility of all employees to familiarize  
\_\_\_\_\_ Themselves with the Asset Management Policies and  
\_\_\_\_\_ Procedures.  
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## **DEFINITION OF FIXED ASSETS AND RELATED DEFINITIONS USED TO APPLY IN MANAGEMENT, CONTROL AND REPORTING ON FIXED ASSETS:**

A fixed asset is defined in GRAP 17 as a tangible item of property, plant or equipment held by the Municipality for use in the productions or supply of

Goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year).

A fixed asset is thus an asset, either movable or immovable, under the control of the Municipality, and from which the Municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.

Characteristics of a depreciable fixed asset are the following:

- It is estimated the asset will be used for more than one financial period;
- It has a limited useful life;
- It is used in a process of delivering services (Directly or indirectly);
- The resource should provide future economic benefits;
- The future economic benefits should accrue to the municipality;
- The event giving rise to the municipality's right to the resource and
  - control over the future economic benefits must already have occurred;
  - and
- It should be possible to determine the cost of the asset reliably.

An asset held under a finance lease, shall be recognised as a fixed asset, as the Municipality has control over such an asset even though it does not own the asset.

**Other definitions:**

Accounting officer                      Means the accounting officer appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and being the head of administration and accounting officer in terms of Section 55 of the Local Government Municipal Systems Act, 2000 (Act no 32 of 2000).

Chief Financial Officer                Is an officer of the Municipality designated by the accounting officer to be administratively in charge of the budgetary and treasury functions.

Carrying Amount                        The amount at which an asset is included in the statements or financial position after deducting any accumulated depreciation and any impairment losses thereon.

CostThe amount of cash or cash equivalents paid, including any directly attributable costs of bringing the assets to working condition for its intended use or the fair value of the other consideration given to acquire an asset at the time of its acquisition and/or construction.

Depreciable amount                    This is the cost of an asset, or other amount

substituted for cost in the financial statements, less its residual value.

Depreciation	Is the systematic allocation of the depreciable amount of an asset over the period of its expected useful life.
Fair Value	The amount for which an asset could be Exchanged or liability settled between knowledgeable, willing parties in an arm's length transaction.
Heritage assets	are culturally, environmentally or historically significant resources. Examples include works of art, statues, historical buildings and monuments, archeological sites, conservation areas and nature reserves.
Infrastructure assets	are any assets that are part of a network. Examples are roads, water reticulation schemes, sewerage purification, transport terminals and car parks.
Investment properties	Are properties that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
Other assets	Are assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.
Plant and equipment	are tangible assets that:- <ul style="list-style-type: none"><li>✓ Are held by the municipality for use in the production or supply of goods and services, for rental to others or for administrative purposes, and</li><li>✓ Are expected to be used during more than one reporting period.</li></ul>
Recoverable amount	is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.
Residual value	Is the net amount which the municipality expects to obtain for an asset at the end of its useful life after deducting the expected cost of disposal.
Useful life	Is either:-

The period of time over which an asset is Expected to be used by the municipality; or  
✓ The number of production or similar units expected to be obtained from the asset by the municipality.

FAR	Fixed Asset Register
GAMAP	Statements of Generally Accepted Municipal Accounting Practice
GRAP	Standards of Generally Recognized Accounting Practice
IAS	International Accounting Standards
MFMA	Local Government: Municipal Finance Management Act
CFO	Chief Financial Officer
MM	Municipal Manager
HOD	Head(s) of Department(s)
PPE	Property, Plant & Equipment

## **~~RESPONSIBILITIES AND DELEGATION~~**

The MM as an accounting officer, is responsible for the maintenance of the fixed assets of the Municipality but extends the responsibility by delegating these powers contained in this document to HOD who in turn will identify officials (Asset Managers) on an appropriate level to assist them with the application of the policy and procedures proclaimed from time to time.

The Asset Management Policy (AMP) and Procedures of the Municipality are to be reviewed periodically to ensure that it addresses the responsibility for asset management. The policy must ensure that the MM and the CFO-

- Shall be the principle custodian of all the Municipality's fixed assets; and
- Shall be responsible for ensuring that the AMP is adhered to at all times.

The MM will act as "champion for change" to implement changes to asset management in the Municipality and must establish an Asset Management Steering Committee (AMSC) to drive the execution of the AMP and Procedures issued in terms of the policy as well as compile asset management plans and the implementation thereof.

The AMSC must assist management in compiling fixed asset management procedures and maintaining a FAR that include the following:

- Asset Planning and Budgeting
- Procurement
- Identification
- Custody and/or operations of assets
- Accountability
- Performance
- Residual Values
- Impairment
- Disposals
- Accounting
- Management
- Risk Management

The CFO, supported by the AMSC, shall ensure that:

- A complete, accurate and up to date FAR is maintained,
- The FAR complies with GRAP, and
- Adequate controls are implemented to ensure the completeness, accuracy and validity of the information contained therein.

HOD's must ensure that their departments comply with the Municipality's AMP and where necessary, develop their own internal control procedures to ensure compliance with the Municipality's AMP.

These procedures should also ensure that, amongst other matters, assets are adequately safeguarded and maintained and must be approved by the AMSC.

Any matter that requires clarification should be referred to the AMSC.

Any non-compliance with the AMP and Procedures must be reported to the MM, who will then implement the necessary corrective measures and actions, which could amongst other include instituting disciplinary action in terms of the Municipality's disciplinary procedures.

The CFO will maintain a record of all directives issued in respect of the Municipality's AMP.

The HOD Human Resources shall ensure that no monies are paid out on termination of services without receiving the asset resignation form, signed off by the relevant HOD. (Part of Resignation form)

Every head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by their department.

In exercising this responsibility, every head of department shall adhere to an

directives issued by the Municipal Manager to the department in question, or generally to all departments, in regard to the control and safekeeping of the municipality's fixed assets.

## **SAFEGUARDING AND MAINTENANCE**

To ensure the completeness and correctness of assets on the fixed asset register, all assets must be physically verified and confirmed at least once in a financial year.

A physical verification program must ensure that all capital assets under a department's control are appropriately safeguarded from inappropriate use or loss, including appropriate control over the physical access to these assets. Conduct regular asset verification to ensure losses have not occurred, and ensuring that any known losses are immediately reported to the AMSC. Full physical verification should be performed, as a minimum, at each reporting date as instructed by the AMSC.

HOD's must ensure that the FAR under their control is accurate and complete at all times. This should be tested by performing physical verification tests. Cyclical coverage of assets can vary between types of assets depending on their risk profiles and degree of physical security. Since it may not be possible to conduct all verifications at the time of reporting, the acceptability of a phased program of verification must be approved by the AMSC. The CFO will inform the external auditors of the AMSC's decision.

All HODs under whose control any fixed asset falls shall provide the CFO in writing with any information required to compile the FAR, and shall advise the CFO in writing, within 48 hours of any material change which may occur in respect of such information.

A fixed asset shall remain in the FAR for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

Every HOD shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the CFO, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

All assets should be kept in a secure location, maintained regularly, insured against theft or destruction, utilised economically and efficiently.

The CFO and MM should inform the council of the acquisition or disposal of a significant asset, and the relevant particulars of the transaction have to be submitted to the executive authority for approval. (Section 54 of the PFMA)

The disposal of any of the municipality's assets has to be approved by council



## **CLASSIFICATION OF FIXED ASSETS**

Nyandeni Local Municipality is implementing the cost module on the fixed asset register.

In compliance with the requirements of the National Treasury, the CFO shall ensure that all fixed assets are classified under the following headings in the FAR and HOD shall in writing provide the CFO with such information or assistance as is required to compile a proper classification:

### **PROPERTY, PLANT AND EQUIPMENT**

- Land (developed and undeveloped)
- Buildings (dwellings and non residential structures)
- Infrastructure assets (assets which are part of a network of similar assets)
- Capital / infrastructure work in progress
- Other machinery and equipment
- Heritage assets (culturally significant resources)
- Biological or cultivated assets
- Investment property
- Intangible assets

Investment assets shall be accounted for in terms of IAS 40 and shall not be classified as PPE for purposes of preparing the Municipality's statement of financial position.

Investment assets shall comprise land or buildings (or parts of buildings) or both held by the Municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in the FAR in the same manner as other fixed assets, but a separate section of the FAR shall be maintained for this purpose.

Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

An expert valuator shall be engaged by the Municipality to undertake such valuations.

If the Council resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment asset.

### **FIXED ASSETS TREATED AS INVENTORY**

Any land or buildings owned or acquired by the Municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the Municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either PPE or Investment Property in the Municipality's statement of position.

Such inventories shall, however, be recorded in the FAR in the same manner as other fixed assets, but a separate section of the FAR shall be maintained for this purpose.

### **RECOGNITION OF LIBRARY BOOKS AS ASSETS IN THE FIXED ASSET REGISTER**

According to research, done within the Nyandeni Local Municipality, library books that have a longer lifetime than 12 months are only those that are used for research. For this purpose Nyandeni Local Municipality will only capitalise the following category in the FAR: Reference books.

All other library books that will be bought will be expensed and budgeted for in the operational budget.

### **RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER**

If no original costs or fair values are available in the case of one or more or all heritage assets, the CFO may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the FAR without an indication of the costs or fair value concerned.

For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

### **RECOGNITION OF DONATED ASSETS**

Where a fixed asset is donated to the Municipality, or a fixed asset is acquired by means of an exchange of assets between the Municipality and one or more other parties, the asset concerned shall be recorded in the FAR at its fair value, as determined by the CFO

## **CAPITALISATION**

Assets shall be capitalized on the basis of the fact that it should meet the definition and recognition criteria of assets as outlined on GRAP 17 regardless of the value of assets. Useful life or lifespan of more than one year should also be incorporated.

### **Proposed Amendment:**

### **Management of minor assets**

Minor assets still need to be controlled and safeguarded even though they are not recognised as capital assets in the financial statements. The controls should include all the internal controls pertaining to capital assets.

### **Minor assets will need to be;**

- receipted using the same controls as capital assets;
- recorded in a minor assets register;
- assigned to a particular asset custodian;
- regularly verified to ensure that they are being appropriately safeguarded;
- subjected to regular control audits performed by the internal audit function;
- disposed of and losses reported in line with the specific policies of the municipality

## **MATERIAL VALUE**

Every HOD shall, however, ensure that any item with an estimated useful life of more than one year shall be reported to the CFO who shall decide whether the portability and attractiveness of the item by its very nature, render it to theft or misplacing and whether it is sufficiently portable to allow removal and if the need exists for the item to be controlled and therefore be included in the FAR as a non-capital item and identified and controlled in the same manner as capital assets.

Every HOD shall ensure that the existence of items referred to and which the CFO decided not to include in the Fixed Asset Register shall be recorded on an asset stock sheet controlled by himself or a person delegated to the task, and verified from time to time, and at least once in every financial year, and any amendments which are made to such asset stock sheet pursuant to such stock verifications shall be retained for audit purposes.

## **INTANGIBLE ITEMS**

No intangible item shall be recognised as a fixed asset, except that the CFO, acting in strict compliance with the criteria set out in IAS 38 (dealing with

research and development expenses) may recommend to the Council that specific development costs be recognised as fixed assets.

## **REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES**

Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised as part of such fixed asset. Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs, and installation, assembly and communication costs.

## **FORMAT OF THE FIXED ASSET REGISTER**

The FAR shall be maintained in the format determined by the CFO, which format shall comply with the requirements of GRAP and GAMAP and any other accounting requirements which may be prescribed.

The FAR must contain data on:

- Department requesting the purchase (Acquisition)
- Cost of the asset in question
- Expected useful life
- Depreciation rate
- Financing source
- Cheque or transfer number.
- Physical Verification
- Disposals, Losses or Damages

The FAR must be reconciled and updated monthly.

All assets and locations must be recorded in the FAR.

Asset information kept in the register in respect of each asset:

- Asset number
- Asset type and description
- Asset Class
- Purchase price
- Depreciation per year (Current)
- Accumulated depreciation

- Book value
- Department responsible for the asset
- Location where the asset were last verified

All Head of Departments under whose control any fixed asset fall shall promptly provide the CFO with any information required to compile the fixed asset register, and shall promptly advise the CFO and Asset Managers of any material change which may occur in respect of such information.

The assets officer must update the asset listing and fixed asset register with the approved asset requisitions, and reconcile on a monthly basis.

On a monthly basis the asset officer must perform reconciliation between the general ledger values and the fixed assets and inventory register values and submit it to the Manager directly reporting to the CFO.

The Manager directly reporting to the CFO must check and sign the fixed assets and inventory reconciliation as correct.

The changes made to the fixed assets register should be printed and approved by the CFO on a monthly basis, if any.

The assets officer should numerically account for the tag numbers, and the Manager directly reporting to the CFO should review the sequence monthly for missing numbers.

The CFO must check the physical verification report, approve and submit a copy to the MM.

Once approved by the CFO the assets officer must file the report in the date order.

### **PROCUREMENT OF ASSETS (REPLACEMENT NORMS)**

All assets acquired must be in terms of the capital budget. Assets must be procured in such a way that:

- A proper need for the asset was identified; and
- Proper and approved procurement procedures are adhered to.

Authorisation for procurement should be as per the departments' delegation of authority and payment for assets should be in accordance with financial policies and regulations of the Council.

On purchase of any fixed assets, via the normal procurement procedures the assets officer must ensure that the asset is recorded in the fixed assets register. It is the responsibility of the purchasing officer to report all assets purchased on arrival to the assets officer.

The municipal manager, in consultation with the CFO and other head of departments, shall formulate norms and standards for the replacement of all normal operational assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of fixed assets which

are required for service delivery but which have become uneconomical to maintain.

**PROCEDURE IN CASE OF LOSS, THEFT OR DESTRUCTION OF FIXED ASSETS**

- Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the chief financial officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.
- The accounting officer will investigate any loss or misplacement of assets as a result of negligence of any official to whom the asset have been allocated per inventory list, and if the official is found guilty he or she will be required to replace the assets in question out of his or her own pocket.
- All movement of assets should be communicated formally to Asset Management section for control purpose

**DEPRECIATION OF FIXED ASSETS**

All fixed assets, except land and heritage assets, shall be depreciated – or amortized in the case of intangible assets.

Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.

However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use.

Each HOD, acting in consultation with the CFO, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

The procedures to be followed in accounting and budgeting for the amortization of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

**RATE OF DEPRECIATION**

The useful life is set out according to the MFMA. (Appendix “A”)

In the case of a fixed asset which is not listed in this annexure, the CFO shall determine a useful operating life, if necessary in consultation with the HOD who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

## **METHOD OF DEPRECIATION**

The CFO shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

## **AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS (REVISION OF USEFUL LIFE)**

Only the CFO may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the CFO shall inform the Council of such amendment.

The CFO shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs.

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off and the FAR will be amended accordingly.

In the all the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

As a result of the uncertainties inherent in business activities, many financial



items cannot be measured but can only be estimated. The estimation process is based on judgements based on the latest financial information available. Estimates may be required, for example bad debts, inventory obsolescence or the useful lives or expected pattern of consumption of economic benefits of depreciable assets.

An estimate may need to be revised if changes occur regarding the circumstances on which the estimate was based or as a result of new information, more experience or subsequent developments.

The effect of a change in accounting estimates should be included in the determination of net profit or loss in:

- The period of the change if the change affects the period only, or
- The period of change and future periods, if the change affects both.

## **REVALUATION OF FIXED ASSETS**

All land and buildings recorded in the Municipality's FAR shall be revalued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).

The CFO shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the CFO is satisfied that such value reflects the fair value of the fixed asset concerned.

The CFO shall also, where applicable, create a revaluation reserve for each such fixed asset equal to the difference between the value as recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question.

The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revalue amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department or vote controlling or using the fixed asset in question.

The CFO shall ensure that an amount equal to the difference between the new(enhanced)monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the Municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the CFO shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value

to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.

Revalue land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalue amount, less accumulated depreciation (in the case of buildings).

**RESIDUAL VALUES**

A document on the residual values as per GRAP 17 requirements.

**Definition of residual value.**

The Residual Value of an asset is the estimated amount that a Council will obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

**Review of residual value.**

The residual value of an asset should be reviewed at least at each reporting date.

If the review indicates that a change has taken place and expectations differ from previous estimates, the changes should be accounted for as a change in the accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. The remaining useful life of capital assets should be reviewed annually and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted. This review should be done by the asset manager in conjunction with the impairment review. The review of useful life is a check to see if there is any evidence to suggest that that expected life should be changed. This evidence could be internal or external.

Asset classes affected by residual values.

Residual value is the net amount which the municipality expects to obtain for an asset at the end of its useful life after deducting the expected cost of disposal. The residual value can be a percentage of the cost or a fixed amount allocated per class.

CLASS	VALUE	RESIDUAL COMMENT
Land	None	No depreciation on land
Buildings	None	Not trading in open market



Machinery and Equipment	Typical internal tender		
	R50.00	proceed	
Computer Equipment	None	changes. No active market.	Computers have no scrap value due to Technology 10% of the cost price.
			The municipality does not replace vehicles after a fixed period, but rather once it has reached the end of its
Motor Vehicles	10%	functional life.	
Heritage Assets	None	No active market	
Intangible Assets			
			Computer software has no scrap value due to Technology changes. No
Software	None	active market.	
<b>Any asset with a cost of less than R250.00</b>			
	None	Will be fully depreciated	

## **VERIFICATION OF FIXED ASSETS**

The CFO shall at least quarterly during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the Municipality.

The FAR must be updated with the results of verification detail.

The results of such verification will be reported to every HOD who shall promptly and fully report in writing to the CFO in the format determined by the CFO on all the fixed assets not verified during such fixed asset verification.

Asset verifications shall be undertaken and completed as closely as possible to the end of each financial year and the resultant report shall be submitted to the MM / CFO by not later than 31 August of the year in question. (Report to Council to coincide Financial Statements)

## **ALIENATION OF FIXED ASSETS**

In compliance with the principles and prescriptions of the MFMA, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the Municipality's supply chain management policy.

Every HOD shall report in writing to the CFO on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such HOD wishes to alienate by public auction or public tender. The CFO shall thereafter consolidate the requests received from the

various departments, and shall promptly report such consolidated information to the MM recommending the process of alienation to be adopted.

Once the fixed assets are alienated, the CFO shall arrange for the appropriate updating of the FAR.

If the proceeds of the alienation are less than the carrying value recorded in the FAR, such difference shall be recognised as a loss in the income statement of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the income statement of the department or vote concerned.

All gains realised on the alienation of fixed assets shall be appropriated annually to the Municipality's Asset Financing Reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the income statement of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

### **OTHER WRITE-OFFS OF FIXED ASSETS**

A fixed asset, even though fully depreciated shall be written off only on the recommendation of the HOD controlling or using the asset concerned, and with the approval of the Council.

Every HOD shall report to the CFO on 31 October and 30 April of each financial year on any fixed assets which such HOD wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the MM and/or Council (depending on the carrying value) on the fixed assets to be written off.

The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question.

In every instance where a not fully depreciated fixed asset is written off, the CFO shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned.

## **DISPOSAL OF MUNICIPAL ASSETS**

The MFMA (section 14 & 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of capital assets. Specifically;

- A municipality may not... “permanently dispose of a capital asset needed to provide the minimum level of basic municipal services”.
- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality’s supply chain management policy.

The processes and rules for the transfer of a capital asset to another municipality, municipal entity or national/provincial organ of state are governed by an MFMA regulation namely: “the Local Government: Municipal Asset Transfer Regulations”.

Where assets have been identified as under-performing, or no longer functionally suited for basic service-delivery needs, consideration should be given to the possible alternatives to disposal.

A factor to consider is whether utilisation can be increased (for example by adapting the asset to another function or using it in another programme). For assets such as property or large IT installations, consideration could be given to the letting of surplus capacity to other entities.

Enhancement/rehabilitation/upgrade of the asset may also be viable. The cost- benefit of such alternatives should be included in the disposal strategy. Reasonable grounds for determining that a capital asset is not required for the provision of the minimum level of basic municipal services may include:

- The asset was acquired specifically for resale or distribution, e.g. investment property or stands held for distribution
- The asset is impaired (in respect of which the asset custodian can provide evidence)
- The municipality no longer performs the function for which the asset was purchased, e.g. the case of a clinic where the province has taken over that healthcare function.
- It is an immovable asset no longer located close to where the service is required, e.g. a taxi rank on a disused road
- The asset has been replaced.
- The asset no longer performs the required level of service.

Processes should be in place to ensure that;

- under-utilised and under-performing assets are identified as part of a regular, systematic review process;
- the reasons for under-utilisation or poor performance are critically examined, and corrective action taken to remedy the situation or a decision to dispose of the asset is made;
- the analysis of disposal methods takes into consideration the potential market or other intrinsic values; the location and volume of assets to be disposed of; the ability to support other government programmes; and environmental implications;
- regular evaluation of disposal performance is undertaken.

### **Methods of disposal**

There are various methods of disposal. Different disposal methods will be needed for different types of assets. Before deciding on a particular disposal method, the following should be considered:

- The nature of the asset (i.e. a specialised asset or a common item);
- its potential market value;
- Other intrinsic value of the asset (i.e. cultural/heritage aspects, etc.);
- its location (with respect to its transportation or access);
- its volume; • its trade-in price;
- its ability to support wider Government programmes;
- environmental considerations;
- Market conditions; and
- The asset's life.

Appropriate means of disposal may include:

- public auction;
- public tender (competitive bidding);
- transfer to another institution;
- sale to another institution;

- letting to another institution;
- Trade-in; and
- controlled dumping (for items that have a low value or are unhygienic)

## **REPLACEMENT NORMS**

Every HOD shall report to the CFO on 31 December of each financial year on any fixed assets which such HOD wishes to replace, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Council on the fixed assets to be written off.

The only reasons for replacement of fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question. This Chapter provides for the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items as well as for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain or have become outdated in terms of available technology.

## **INSURANCE OF FIXED ASSETS**

The MM shall ensure that all movable fixed assets are insured at least against fire and theft, and that all Municipal Buildings are insured at least against fire and allied perils.

The CFO shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the HOD concerned.

The MM shall recommend to the Council, after consulting with the CFO, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the Municipality.

The CFO shall annually submit a report to the Council on any reinsurance cover which it is deemed necessary to procure for the Municipality's self-insurance reserve.

## **FINANCIAL DISCLOSURE REQUIREMENTS**

The financial statements should include disclosure in respect of assets as laid out in GRAP.

Financial statements should include the following disclosures:



➤ The measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.

- The depreciation methods used.
- Depreciation charged in arriving at net profit or loss for the period.
- The gross carrying amount and the accumulated depreciation (Aggregated with accumulated impairment losses) at the beginning and the end of the period.
- A reconciliation of the carrying amount at the beginning and end of the period showing:
  - Additions
  - Disposals
  - Acquisitions through business combinations
  - Increases or decreases during the period resulting from reevaluations Under paragraphs and from impairment losses recognised or reversed directly in equity under the statement on impairment of assets, if any.
  - Impairment losses recognised in the income statement during the period on impairment of assets, if any.
  - Impairment losses reversed in the income statement during the period under the statement on impairment of assets, if any.
  - Depreciation
  - The net exchange differences arising on the translation of the financial Statements of a foreign entity, and
  - Other movements.

The financial statements should also disclose the following:

- The existence and amounts of restrictions on title, and property
- The accounting policy for the estimated costs of restoring the site of items of property, plant and equipment.
- The amount of expenditures on account of property, plant and equipment in the course of construction.
- The amount of commitments for the acquisition of property, plant and equipment.

The selection of the depreciation method, and the estimation of the useful life, is a matter of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates, provides financial statements with information, which allows them to review the policies selected by management and enables comparisons to be made with other enterprises. For similar reason, it is necessary to disclose the depreciation allocated in a period and the accumulated depreciation at the end of that period.

An enterprise discloses the nature and effect of change in an accounting estimate that has a material effect in the current period or which is expected to have a material effect in subsequent periods in accordance with the statement on net profit or loss for the period, fundamental errors and changes in accounting policies. Such disclosure may arise from changes in estimates with respect to:

- Residual values;
- The estimated costs of dismantling and removing items of property, Plant or equipment and restoring the site;
- Useful lives, and
- Depreciation method.

When items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:

- The basis used to revalue the assets
  - The effective date of the revaluation
  - Whether or not an independent value was involved
  - The nature of any indices used to determine replacement cost
  - The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried under the benchmark treatment in paragraph.
  - The revaluation surplus, detailing:
    - 1.The movement for the period
    - 2.Any restrictions on the distribution of the balance to shareholders,
    - 3.The realised and unrealised portions thereof, and
    - 4.The outside shareholders' share thereof.

**Financial statement users also find the following information relevant to their needs:**

- The carrying amount of temporarily idle property, plant and equipment.
- The gross amount of any fully depreciated property, plant and equipment that are still in use.
  - The carrying amount of property, plant and equipment retired from active use and held for disposal.
  - Where the benchmark treatment is used, the fair value of property,

plant and equipment where this is materially different to the carrying amount.